



**A Report to the
Audit Committee**

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Metropolitan
Nashville
Office of
Internal Audit

**Audit of Hotel Occupancy Taxes
Fiscal Year 2016**

July 21, 2016

EXECUTIVE SUMMARY

July 21, 2015



This audit was conducted at the request of the Office of the Treasurer to provide management assurance that hotel occupancy tax collections are accurate and complete.

What We Recommend

Hotel operators need to continue to ensure documentation for hotel occupancy tax room revenue, number of rooms rented, adjustments to revenue, justification for out of service rooms, and exemption claims is retained for 36 months.

For more information on this or any of our reports, email Mark.Swann@nashville.gov

Audit of Hotel Occupancy Taxes Fiscal Year 2016

BACKGROUND

The Metropolitan Nashville Office of Internal Audit conducts compliance audits of Metropolitan Nashville Government's six percent hotel occupancy tax and \$2.50 per rented room convention center tax. There were 277 hotel and 1,271 vacation rental operators that filed hotel occupancy taxes in the past three fiscal years (fiscal years 2014, 2015 and 2016). Exhibit 1 summarizes by fiscal year the amount received in the Treasury Collections Office within the Office of the Treasurer.

Exhibit 1 – Hotel Occupancy Tax Received by Fiscal Year¹

Type	FY2014	FY2015	FY2016
Hotel	\$58,409,273	\$67,884,278	\$74,513,562
Vacation Rental	183,076	466,865	2,005,386
Total	\$58,592,349	\$68,351,143	\$76,518,948

OBJECTIVES AND SCOPE

The objectives of the audits were to determine:

- Revenue and number of rooms asserted for monthly hotel occupancy tax returns agreed with hotel operator's results of operations.
- Exemptions to hotel occupancy tax were for continuous stays in excess of thirty day or for federal, state, or local government business.

A sample of 16 hotel operator's (see Appendix B for locations) tax returns representing \$14.7 million in hotel occupancy taxes and convention center taxes were audited. Hotels selected for audit were based on annual reported room nights not matching expected number of room nights reported based on Metropolitan Nashville hotel occupancy rates.

WHAT WE FOUND

The \$14.7 million in hotel occupancy tax and convention center tax returns reviewed were materially valid. However, thirteen hotels underpaid taxes by \$111,119 along with hotels overpaying \$25,476, leaving a total of \$85,643 net underpaid recommended for recovery or less than one percent (0.58 percent) of hotel occupancy tax and convention center tax audited. Tax underpayments ranged between \$42,829 and \$22 for these thirteen hotels.

¹ Hotel occupancy taxes received as posted in Treasury Department Collections database as of July 18, 2016.

GOVERNANCE

The Collections Office within the Office of the Treasurer is responsible for receiving hotel occupancy tax returns. The Collections Office will review hotel occupancy tax returns for accuracy and monitor payments. Hotel operators assert total revenue and number of rooms rented on monthly hotel occupancy tax returns. Normally hotel operators obtain information for these hotel occupancy tax returns from their lodging computer system and records maintained for guest exemptions.

OBJECTIVES AND CONCLUSIONS

Were hotel occupancy tax return revenue, number of rooms rented, and exemption claims accurate and complete?

Generally yes. Hotel occupancy tax returns were materially valid. However, thirteen hotels underpaid taxes by a net amount of \$85,643 or less than one percent (0.58 percent) of hotel occupancy tax and convention center taxes audited in fiscal year 2016.

Hotel operators need to continue to ensure documentation for hotel occupancy tax room revenue, number of rooms rented, adjustments to revenue, justification for out of service rooms, and exemption claims is retained for 36 months.

COLLECTION OF HOTEL OCCUPANCY TAX NET AUDIT CLAIMS AT 71 PERCENT

Exhibit 2 – Summary of Hotel Occupancy Tax Net Audit Claims By Fiscal Year

Fiscal Year	Number of Audits	Audited Revenue Amount	Audited Tax Amount	Net Audit Claim ²	Collected or Settled
2013	18	\$ 63,740,705	\$ 5,385,583	\$ 22,058	\$ 26,988
2014	29	182,368,581	14,242,187	415,061	289,891
2015	14	42,664,158	2,849,694	126,335	120,068
2016	16	202,608,560	14,745,873	126,597	52,333
Total	77	\$491,382,004	\$37,223,337	\$690,051	\$489,280

² Amount includes the net amount of taxes underpaid, overpaid, and penalty and interest.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key hotel operator personnel.
- Reviewed and analyzed hotel property results of operations financial and statistical reports.
- Traced revenue and room nights to supporting lodging computer system monthly reports and other supporting documentation.
- Agreed exemption claims with those allowed within the Metropolitan Nashville Code of Laws.
- Physically observed hotel properties.
- Reviewed support for hotel occupancy tax exemptions.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

MEGAN BARRY, MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

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July 21, 2016

Mark Swann
Metropolitan Auditor
1417 Murfreesboro Pike
Nashville, TN 37217

Re: Audit of Hotel Occupancy Taxes Fiscal Year 2016

Dear Mr. Swann:

This letter acknowledges receipt of your Audit of Hotel Occupancy Tax for Fiscal Year 2016. I have reviewed the audit report and agree with the conclusions and recommendations. If followed, these recommendations will help operators fully comply with Hotel Occupancy Tax requirements. My office will encourage operators to implement the recommendations.

I appreciate the continued support of you and your staff. These audits are instrumental in ensuring accurate and timely tax collections.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tom G. Eddlemon", written over a horizontal line.

Tom G. Eddlemon
Metropolitan Treasurer

